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IN REPLY
REFER TO

AQOD

JUL 10 1995

**MEMORANDUM FOR COMMANDERS, DEFENSE CONTRACT MANAGEMENT
DISTRICTS**

**SUBJECT: DCMC Memorandum No: 96-23 , Price Negotiation Memoranda
(INFORMATION)**

This is an INFORMATION Memorandum. It expires after one year. Target Audience: All employees responsible for preparing, reviewing or approving price negotiation memoranda (PNMs).

A recent Department of Defense Inspector General (DoD IG) report raised serious concern over the pricing of some spare parts negotiated by one of our offices. The report alleged that we paid \$15 million too much, or about double what we should have paid. Needless to say, a lot of time was spent by the DoD IG, the customer buying office and us (field office, district and headquarters) on this issue. However, after a thorough review, the problem turned out not to be the pricing decision, but, instead, an inadequate explanation in the PNM of why the negotiated price was fair and reasonable.

The PNM serves two major purposes: first, to document for the record that the pricing arrangement negotiated was based upon appropriate analysis and sound judgement, i.e., a good deal was struck. The second purpose of the PNM is to provide an audit trail for defective pricing and other legal reviews. Regulatory and internal policies govern the content of PNM.

It takes some time to prepare the PNM but it is crucial since we are spending our customers', and the public's, money. Nothing dispels their trust and confidence quicker than reports of gross overpricing. It is especially unfortunate when our reputation suffers for no reason but lack of supporting documentation. Questions about this memorandum should be directed to Mr. David Ricci, Contractor Capability and Proposal Analysis (AQOD), (703) 767-3376, DSN 427-3376, e-mail: dave-ricci@hq.dla.mil.

ROBERT W. DREWES
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